



ARGENTINA

ECONOMIC DEVELOPMENTS

February 2016

This document on economic developments and policies was prepared in the context of an informal Executive Board briefing on Argentina under the procedures for members with excessive delays in Article IV consultations. Under these procedures, IMF staff prepares an assessment of the member's economy and policies based on information that is publicly available and without consultation with the member. The document, which constitutes the views of IMF staff, is aimed at keeping the Board informed about developments in the country. Given the absence of a more complete set of information, and a more thorough policy dialogue with authorities, this document should not be characterized as an IMF Article IV staff report nor should it be portrayed as representing the views of the Executive Board. Similarly, the associated informal Executive Board briefing does not constitute an Article IV consultation with the member.

This document is based on the information available at the time it was completed on January 25, 2013.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: <http://www.imf.org>
Price: \$18.00 per printed copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

ARGENTINA

Economic Developments¹

Approved by the Western Hemisphere Department

January 25, 2013

I. RELATIONS WITH THE FUND

1. **The Executive Board concluded the last Article IV Consultation with Argentina in July 2006.** Since then, Argentina has not had an Article IV Consultation, despite repeated attempts by staff to schedule such consultation, and staff has not had the opportunity to discuss macroeconomic developments and policies with the Argentine authorities. Until recently, the only discussions staff had with the authorities concerned Argentina's provision of data in relation to its breach of obligation under Article VIII, Section 5 of the Articles of Agreement. Since 2012 discussions also have covered preparations for the FSAP mission (which is underway). To prepare this note, staff has relied solely on publicly available information; the lack of interactions with country officials and the information gaps (including due to the inaccurate provision of data to the Fund) have constrained the staff's analysis.²

2. **At the conclusion of the 2006 Article IV consultation, the Executive Board noted that:**

- Argentina was recovering rapidly from the deep economic crisis of 2002, and the authorities had adopted policies conducive to a rapid decline in unemployment and poverty, a gradual recovery of the banking system, and, helped by favorable terms of trade, a strengthening of the external position.

¹ This note has been prepared in the context of a new framework adopted by the Executive Board to address excessive delays in the completion of Article IV Consultations, and in no way serves to meet the member's obligation to consult with the Fund under Article IV, Section 3 of the Articles of Agreement. As part of the new framework, staff is required to brief the Board with respect to the member's economy and policies on an annual basis (see *Proposed Steps to Address Excessive Delays in the Completion of Article IV Consultations*, Decision No. 15106-(12/21), adopted February 29, 2012). The note was prepared by a team comprising C. Medeiros (head), N. Griffin, F. Amui and G.P. Nicholls (all WHD); it was approved by M. Savastano (WHD), and reviewed by SPR, LEG and STA.

² On July 13, 2011, the Executive Board found Argentina to be in breach of its obligation under Article VIII, Section 5 of the Articles of Agreement due to Argentina's provision of inaccurate information on data for the Consumer Price Index for Greater Buenos Aires (CPI-GBA) and Gross Domestic Product (GDP). On September 17, 2012, the Executive Board issued a statement of concern with respect to Argentina which called on Argentina to implement specific remedial measures to improve the quality of the CPI-GBA and GDP data without delay. On December 17, 2012, Management reported to the Board on Argentina's response to the Fund's concerns.

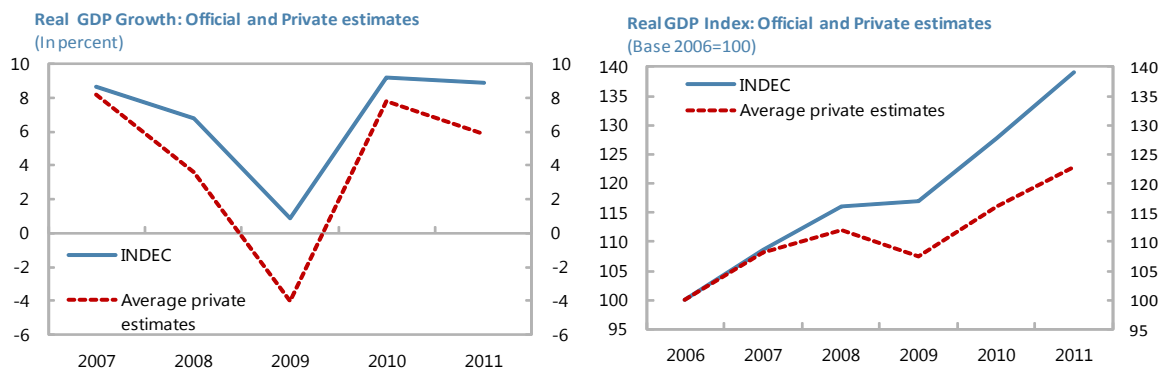
- Domestic demand growth was outpacing aggregate supply and inflation was rising. In view of this, priority had to be given to controlling inflation and ensuring a soft landing of the economy. Executive Directors considered that this could be achieved through a tightening of fiscal and monetary policies, greater upward flexibility of the exchange rate to curb inflation, and reforms to promote new investment and supply (including through consideration of alternatives to export taxes, and adjustment of relative prices in utilities and energy sectors).

3. **The global environment foreseen at the time of the 2006 Article IV consultation with Argentina did not anticipate two major events that, in hindsight, turned out to be critical for the performance of the global economy, and Argentina, in the following years.** The first one was the global financial crisis of late 2008 that caused a severe and unprecedented disruption in global trade, capital outflows and output in 2008–09. The second one was the sharp and persistent increase in world commodity prices, including those relevant for Argentina’s external terms of trade (e.g., soy, wheat, and maize). In fact, the staff report for the 2006 Article IV Consultation assumed that Argentina’s terms of trade would decline during 2007–10.

II. MACROECONOMIC DEVELOPMENTS 2007–11

A. Output, Employment and Prices

4. **According to official data, economic growth during 2007–11 was very high, except for a short-lived slowdown in the wake of the Lehman crisis (Box 1).** Official GDP series imply an average growth of real GDP during 2007–11 of 6.9 percent; excluding 2009 the average growth was 8.4 percent, only slightly lower than the 9 percent average real GDP growth achieved by Argentina in the four years that followed the crisis of 2002. The growth performance during 2007–11 was weaker according to estimates from private analysts. As an illustration, an average of a small sample of private analysts’ estimates yields an average output growth rate of 4.3 percent for 2007–11 (6.4 percent excluding 2009).³



Sources: National Institute of Statistics and Census (INDEC) and private analysts.

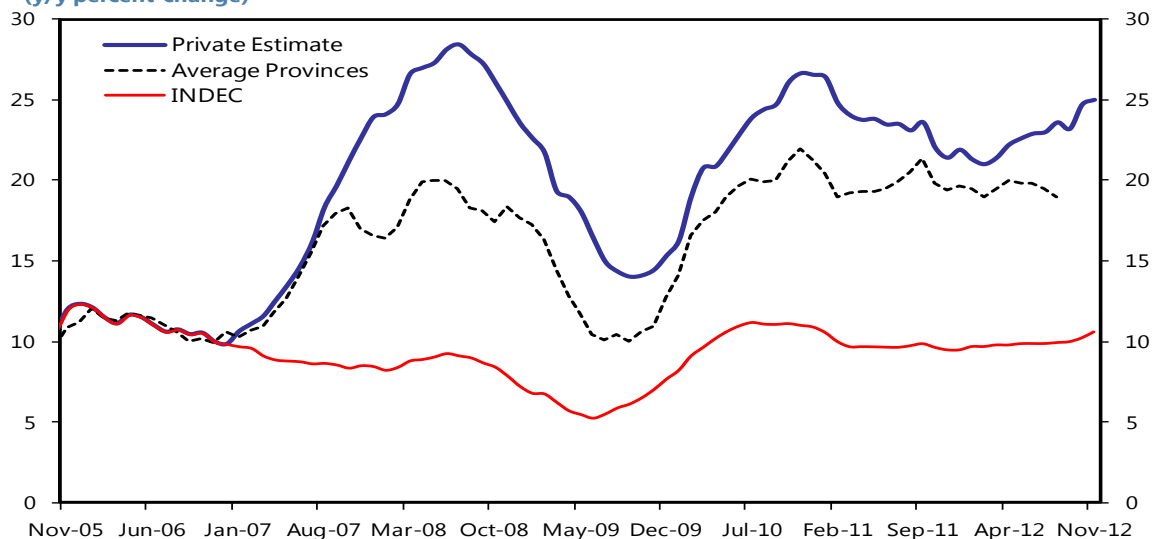
5. **Economic growth during this period appears to have been broad based:**

³ The private estimates of real GDP growth are only useful to convey an idea of the order of magnitude of the possible bias in official GDP data, but are likely to suffer from methodological shortcomings and, thus, cannot be regarded as reliable indicators of economic activity in Argentina during 2007–12.

- On the demand side, both consumption and investment grew strongly. Private consumption expanded fast on the back of solid employment and income growth and negative real interest rates, while public consumption grew as the government ramped up social spending, including transfers to low income families (Figure 1 and Tables 3 and 4). Investment also expanded vigorously due primarily to an increase in durable equipment investment in the agricultural sector, the manufacturing sector (most notably in the automobile industry), and construction. Both private consumption and investment growth turned negative in 2009 due to the global financial crisis, but their decline was short-lived (especially according to the official GDP data—Box 1).
- On the supply side, the still depreciated real exchange rate (relative to the level prior to the 2002 crisis), together with the government’s initiatives to support industry provided a boost to the manufacturing sector, particularly automobile production. At the same time, strong (and unexpected) gains in the external terms of trade supported the rapid expansion in the services sector, especially wholesale, retail, transportation and communication.

6. **Despite the reliance on price controls for basic consumption goods, inflation remained high.** According to official data, consumer price inflation in the Greater Buenos Aires area during 2007–11 averaged 8.8 percent per annum (compared to an average of 9.6 percent during 2003–06). Estimates from private analysts, however, place average annual inflation during 2007–11 at above 21 percent, while data from provincial statistical offices show that the average annual CPI inflation in the provinces was about 17 percent during this period (see footnote 2 and chart below). All inflation series show a dip in inflation in 2009.

Consumer Prices: Official, Provincial and Private Estimates
(y/y percent change)



Sources: National Institute of Statistics and Census (INDEC), provincial statistical offices, and private analysts.

7. **Unemployment continued to decline, although at a slower pace than during 2003–06, but nominal wage growth was high.** Except for a brief reversal in 2009, the unemployment rate, which had fallen from over 20 percent in 2002 to below 9 percent in 2006, declined to 7.2 percent in 2011. The manufacturing, construction and services sectors recorded the strongest employment gains. Labor productivity also increased, though the size of the increase varies depending of the measure of GDP used. Excluding 2009, nominal wages rose, on average, by about 23 percent per annum during 2007–11. Using the official CPI, this nominal wage growth would imply an average increase in real wages during this period of 13 percent per year, which seems implausibly high; using private estimates of inflation, the average increase in real wages would have been around 2 percent per year.

8. **Indicators of poverty and income distribution improved, although there is disagreement on the extent of improvement.** According to official estimates, the poverty rate (measured as the proportion of persons in the population whose monthly income is insufficient to purchase a basic basket of goods and services) declined from 57.5 percent at end-2002 to 6.5 percent at end-2011; those estimates also suggest that about one-half of the decline took place during 2003–06. Other estimates, by private analysts and institutions, suggest that the decline in the poverty rate during 2003–11 was much smaller, once the poverty line is adjusted for a higher rate of inflation. In terms of income distribution, the National Institute of Statistics and Census (INDEC) estimates that the Gini coefficient for Argentina declined from 0.52 at end-2002 to 0.44 at end-2011, in line with a general trend among most countries in Latin America, including Brazil, Colombia and Peru. For Argentina, these results partly reflected increased public expenditures on social programs, including universal child allowance, and increases in the minimum wage.

B. Balance of Payments

9. **During 2007–11, exports surged on the back of favorable export prices.** Total export proceeds increased by 50 percent in U.S. dollar terms from 2007 to 2011, reaching US\$84 billion in 2011 (Figure 2 and Table 2).⁴ Exports of primary products (22 percent of total exports in 2007) increased by more than 60 percent (to US\$20.2 billion); a significant part of the increase was explained by rising export prices. Exports of manufactured goods (31 percent of total exports in 2007) also grew strongly (by over 67 percent) during 2007–11 mainly driven by higher automobile exports to Brazil under bilateral agreements. In contrast, exports of fuel and energy remained broadly flat during this period, as lower volumes (explained by higher domestic consumption) more than offset the sharp increase in export prices. The strong export performance allowed Argentina to maintain a trade balance surplus, of about 4½ percent of official GDP, on average, during 2007–11; although high, this surplus was about one-half the one recorded during 2003–06.

10. **Imports also grew rapidly, fueled by the strong domestic demand.** From 2007 to 2011, total imports in U.S. dollar terms grew by 65 percent (to US\$70 billion). All categories of imports increased at broadly similar rates; the exception were energy imports, which more than

⁴ By comparison, the staff report for the 2006 Article IV consultation, using much lower world commodity prices, projected that Argentina's total exports by end-2011 would be around US\$59 billion.

tripled during the period driven by the strong domestic demand. This contributed to a shift in the energy trade balance from a surplus of US\$4 billion in 2007 to a deficit of US\$3 billion in 2011. The rapid increase in imports started to erode the trade surplus during 2010–11, and gave rise to concerns about the overvaluation of the peso, particularly as the rate of nominal depreciation became much smaller than the differential between domestic and foreign inflation.⁵

11. Reflecting the falling trade surpluses, the external current account balance switched from a surplus of about 2.3 percent of official GDP in 2007–09 to a small deficit in 2011.

Although very small, this was Argentina’s first current account deficit in a decade. The deterioration in the current account deficit was driven by higher consumption (both private and public) rather than investment, which fell as a share of GDP (both official and unofficial) during these years.

12. In contrast, the capital account balance was weak throughout the period. Net inflows of foreign direct investment as a share of official GDP declined from over 2 percent in 2007–08 to about 1.5 percent in 2010–11; net external borrowing from the private and public sectors was negative in most years; and other capital outflows were large throughout the period (especially in the category of “other investment, net”) probably in response to the deteriorating business conditions. As a result, the overall balance of payments recorded a deficit in three of the five years and, by end-2011, the level of gross international reserves (US\$46.4 billion) was broadly the same as the one at end-2007. Following an increase in 2008–09, the net international investment position declined sharply to 10.9 percent of official GDP in 2011 (Table 2).

III. MACROECONOMIC AND STRUCTURAL POLICIES

A. Fiscal Policy

13. Public sector spending (from both the federal government and the provinces) rose sharply during 2007–11 (Figure 3 and Tables 3 and 4). Primary expenditure, in particular, increased by more than 8 percentage points of official GDP (to 37.4 percent of GDP in 2011).⁶ Transfers to the private sector and public sector wages were the categories where the increase was the largest. The increase in transfers was explained by higher social security benefits and government subsidies (especially for transportation, electricity and natural gas). Public capital expenditure was broadly stable at about 4 percent of official GDP during these years.

14. Public sector revenue also increased, but not as much as expenditures. Between 2007 and 2011, total public sector revenue increased by 5.8 percentage points of official GDP.

⁵ As with all indicators that are deflated by a price index, estimates of the change in Argentina’s real effective exchange rate (REER) vary widely depending on the measure of inflation used. REER measures that use the official CPI data suggest that the peso depreciated by 7 percent in real effective terms between end-2007 and end-2011. In contrast, measures of the REER that use inflation data produced by provincial statistical offices or private analysts yield a real appreciation of 28 percent and 46 percent, respectively, during the same period. There is no reliable data on unit labor costs (ULC) to compute alternative measures of the real exchange rate.

⁶ When measured as a share of private estimates of nominal GDP, the increase in primary expenditure from 2007 to 2011 is somewhat smaller.

Roughly half of that increase reflected higher social security contributions resulting from the partial transfer of private pension accounts to the National Social Security Administration (ANSeS) in 2007 and the nationalization of pension funds in 2008. The rest of the increase in revenues reflected the impact of economic growth, improvements in the collection of the income tax and the VAT, and higher export duties.

15. **As primary expenditure growth outpaced revenue growth, the large primary surpluses that had been maintained during 2004–06 started to decline.** The primary balance of the consolidated public sector during 2007–08 averaged 2.6 percent of official GDP, 2 percentage points lower than the average during 2004–06. In 2010, the primary surplus had fallen to 1.6 percent of official GDP, and in 2011 the primary balance recorded a small deficit. During this period, the provinces remained highly dependent on transfers from the federal government (which provided close to 60 percent of their total revenue). Despite these large transfers, the primary balances of the provinces recorded small deficits during 2008–11 mainly as a result of large wage increases.

16. **The overall public sector deficit during 2007–10, however, was somewhat lower than the one recorded during 2004–06.** Excluding 2009, the overall deficit of the consolidated public sector averaged 1.5 percent of official GDP during 2007–10 (compared to 1.8 percent of GDP during 2004–06), while the deficit of the federal government averaged 1.3 percent of official GDP (2.8 percent of GDP during 2004–06). This situation changed in 2011 when the overall deficit of the consolidated public sector (federal government) rose to 3 percent (2.6 percent) of official GDP. Throughout the period, the bulk of the fiscal deficit was financed from domestic sources, including profit transfers from public enterprises, bond placements with Banco Nación and ANSeS, accrued interest on indexed bonds, and temporary advances and borrowing from the central bank; arrears on sovereign bonds in default were a significant “external” source of deficit financing. Reflecting this, by end-2011 almost 50 percent of the central bank’s total assets consisted of claims on the Treasury.

17. **Primary surpluses, output growth and low borrowing costs created very favorable debt dynamics (Box 2).** As a result, using official GDP data, Argentina’s public debt-to-GDP ratio fell from 67 percent at end-2007 to 45 percent at end-2011 (Table 7).⁷ Real GDP growth (based on official GDP data) explained more than half of the decline in the ratio, while negative real interest rates, together with the real appreciation, accounted for approximately one third. The primary surpluses and the debt exchange of 2010 explain the rest. Partly as a result of the 2010 debt exchange, Argentina’s external public debt fell by close to 20 percent in nominal U.S. dollar terms from end-2007 to end-2011 (Table 6). Notwithstanding this decline, in external obligations, Argentina did not completely normalize relations with holders of sovereign bonds in default and with Paris Club creditors during this period. At end-2011, Argentina had external arrears of about US\$20 billion, of which roughly 45 percent were with Paris Club creditors.

⁷ When measured as a share of private estimates of nominal GDP the public debt ratio falls from 66 percent in 2007 to 43 percent in 2011

B. Monetary and Financial Sector Policies

18. **The framework used by the central bank to conduct monetary policy during 2007–11 had multiple objectives and allowed considerable discretion to the monetary authorities.** The central bank continued the practice (started in 2006) of setting annual targets for M2 growth at the beginning of the year that were said to be consistent with the government’s inflation and output objectives. In practice, however, the framework did not operate as a standard monetary targeting regime. The M2 growth targets did not constrain the central bank actions in any meaningful way nor did they seem to have provided a nominal anchor to guide the inflation expectations of the public. The latter objective was particularly challenging given the questions surrounding the official measure of inflation (see paragraph 6 and footnote 2). The frequent interventions in the foreign exchange market to preserve nominal exchange rate stability and, since 2009, the resumption of central bank lending to the government to finance the fiscal deficit were also at odds with key requirements of monetary targeting regimes.⁸

19. **In the event, the monetary policy stance during 2007–11 was expansionary.** The reference interest rates set by the central bank were significantly below the private estimates of inflation throughout this period and, except for 2008 and 2009, the annual rate of growth of all monetary aggregates was two-to-three times higher than the official measure of annual inflation (Figure 4 and Table 5), and also higher than the private estimates of inflation. The sharp increase in central bank credit to the government during 2010–11 and the ensuing adoption of numerous foreign exchange measures to contain the domestic demand for dollars provide additional indications of a loose monetary stance.⁹ The abundant liquidity and low cost of funding made it possible for banks to increase lending and led to a rapid expansion of bank credit to the private sector (close to 30 percent in nominal terms during 2007–11, on average). Bank credit in dollars increased until late 2011, when dollar deposits in the banking system started to decline, probably in response to the accumulation of foreign exchange measures.¹⁰

20. **Despite the growing macroeconomic imbalances, the banking system remained stable.** During 2007–11, Argentine banks, benefitting from ample liquidity and high intermediation spreads, did not experience major problems and compared favorably with banks of other Latin American countries in terms of profitability and levels of non-performing loans (Figure 5). That said, Argentina’s banking system did not recover to the size it had in the late 1990s and has expanded less than the systems of most regional peers.¹¹

⁸ In March 2012, the Argentine congress approved a new central bank charter, which set as the objectives of the central bank “the pursuit of monetary stability, financial stability, and economic development with social inclusion.” The new charter requires the central bank to make available additional financing to the Treasury, further undermining its independence from the government and its ability to keep inflation under control.

⁹ Staff is assessing the foreign exchange measures introduced by Argentina, including the implications of such measures, for jurisdictional implication under Article VIII of the Articles of Agreement.

¹⁰ Deposits in dollars from the private sector fell by nearly 50 percent in U.S. dollar terms (or US\$7 billion) from end-October 2011 to end-December 2012.

¹¹ A financial sector ROSC conducted in 2012 found that Argentina complies with the bulk of the core principles in banking, insurance, and securities. The first FSAP for Argentina, jointly conducted by the World Bank and the Fund, is underway.

C. Structural Policies

21. **During 2007–11, Argentina stepped up regulations affecting markets for goods and services and its reliance on administrative measures.** These included an array of administered prices, measures to ban or restrain certain exports (particularly of meat and wheat), and increased discretion in the adjustments of tariffs and fees of public services. In addition, the deterioration in the quality of official data for inflation and GDP undermined the role of these key economic indicators in providing information to guide the decisions of consumers and producers, particularly with respect to financial savings and wage adjustment, and to contribute to an efficient allocation of resources. These policies may have helped dampen domestic price increases of certain goods, but are also likely to have caused welfare and efficiency costs. Lastly, as noted, since late 2011 the government introduced measures related to foreign exchange transactions to contain the domestic demand for dollars (Box 3).

22. **Surveys conducted by the World Bank and other entities show that Argentina’s business environment deteriorated during these years.** The World Bank’s “2013 Doing Business Report” places Argentina in the 124th place among 185 economies on the doing business indicators, 46 places lower than in the 2006 survey. (Within Latin America and the Caribbean region, Argentina is ranked 26 out of 33 countries.) Similarly, the Global Competitiveness Index for 2012–13 compiled by the World Economic Forum ranks Argentina in the 94th place of 144 economies, 24 places lower than its position in 2006



IV. DEVELOPMENTS IN 2012

23. **Economic activity slowed significantly in 2012 in the face of both external and domestic shocks.** According to official data, real GDP growth fell to 2 percent reflecting a severe drought (that caused a 15 percent drop in grain harvest), and lower automobile production due to lower demand from Brazil.¹² The tightening of controls on imports and measures related to foreign exchange transactions, including for real estate, created supply bottlenecks that affected the construction sector, and private investment more generally. Inflation, as measured by private analysts, rose to about 25 percent (y/y), and continued to weigh in on wage demands, prompting the authorities to seek a “social pact” between large employers and labor unions to limit wage increases in 2013 to no more than 20 percent.

24. **Both exports and imports declined in U.S. dollar terms, but the trade surplus improved and the current account shifted to a surplus.** The decline in exports (mainly agricultural products and automobiles) was more than offset by the lower imports caused by the import restrictions and slower economic activity. The ensuing improvement in the trade surplus, together with a narrowing of the net earnings and dividends deficit, helped shift the current account balance to a small surplus. Net repayments of public sector obligations increased the deficit in the capital and financial account, and the overall balance of payments recorded a deficit of more than US\$4.5 billion. As of end-2012, gross international reserves stood at US\$43.3 billion (over 6 months of imports of goods and services), its lowest level since 2006.

25. **Fiscal and monetary policies continued to be expansionary.** The primary balance of the federal government is estimated to have closed the year at its lowest level in over a decade, as spending kept rising despite the weak revenues. The federal government continued to rely on central bank resources and transfers from the pension funds to finance its deficit. In this context, broad money increased by close to 40 percent, and real deposit rates remained negative (despite the increase in nominal rates by year end). The measures related to foreign exchange transactions and the control on imports widened the spread between the parallel market and official exchange rate (which reached 50 percent by mid-January 2013). Although the central bank increased the pace of the nominal depreciation of the peso, the currency continued to appreciate in real terms.

V. NEAR-TERM OUTLOOK

26. **In 2013, the recovery of agricultural production and of economic activity in Brazil will be positive for aggregate output.** High world prices of commodities will also help support activity. Exchange and import controls, however, would continue to affect confidence and private investment. All things considered, staff projects real GDP growth of 2.8 percent in 2013. Inflation would remain high buoyed by entrenched inflationary expectations and continued monetization of the fiscal deficit. On the external side, staff expects that the current account balance would remain broadly unchanged (a surplus of 0.3 percent of GDP). The behavior of the capital and financial account, however, will depend critically on the measures taken by the authorities to improve business confidence.

¹² Private analysts estimate that real GDP growth in 2012 was about zero.

27. **Policy uncertainty and external shocks present large downside risks.** A pickup of inflation that increases the real appreciation of the peso may narrow the trade surplus and lead to an escalation of the control measures related to foreign exchange transactions and imports, further constraining growth. That response would hurt business confidence and may fuel larger capital outflows than those observed in 2012. In addition, a decision by the Second Circuit Court of Appeals in the United States to uphold the court order favoring full payment to holdout creditors of the defaulted debt in 2001 could increase the cost of external funding for the large corporates with access to international capital markets. Finally, a weak recovery in Brazil or a sharp fall in commodity prices would have an adverse effect on activity, exports, and the current account balance.

28. **Over a longer horizon, maintenance of current policies will increase vulnerabilities and downside risks.** International experience shows unambiguously that high inflation, distorted relative prices, and parallel exchange rates are inimical to business confidence and sustained growth. The relatively low levels of public and external debt and somewhat adequate international reserve coverage present in Argentina as of end-2012 may provide some space for further policy stimulus to boost short-term growth. But those policies would do little to ease the increasingly tighter financing constraints of the government, ease supply bottlenecks and improve business confidence, all of which are necessary for sustained non-inflationary growth.

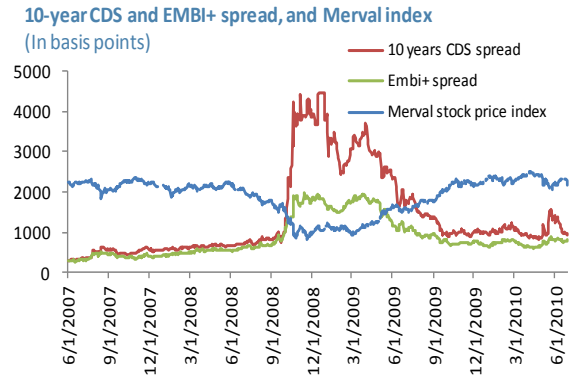
VI. STATISTICAL ISSUES

29. **Data provision is inadequate for surveillance.** Argentina's provision of inaccurate information on official data for the CPI and GDP since early 2007 has hampered staff's ability to conduct effective surveillance of Argentina's economy. In addition, shortcomings of the fiscal and debt data, particularly at the provincial level, have affected staff's ability to reconcile fiscal and financial developments.

BOX 1. IMPACT OF THE LEHMAN CRISIS AND POLICY RESPONSES

As in other emerging economies, the Lehman crisis of late 2008 led to a sharp rise in financial market spreads and capital outflows in Argentina.

Spreads on Argentina's sovereign debt increased by more than 1,100 bps to 1,960 bps, while its five- and ten-year CDS rose by roughly 3,700 bps to around 4,500 bps in late December 2008. Money market interest rates and yields on debt instruments in the domestic market also rose markedly, while the stock market index fell. At the same time, a surge in demand for foreign currency caused the peso to depreciate by more than 20 percent vis-a-vis the U.S. dollar between September 2008 and August 2009.



The deterioration in the global environment, combined with a drought, resulted in a sharp but short-lived economic slowdown. Official data shows that real GDP grew by 2 percent in the first quarter of 2009, but declined in the following two quarters (estimates from private analysts suggest a much deeper contraction). The downturn was most evident in investment, as companies curtailed their purchase of new equipment and machinery, though private consumption also slowed. Reflecting these, data from the provincial statistical offices show a decline in average inflation from 18 percent in 2008 to 13 percent in 2009. The economy started to recover in the second half of 2009, driven by a strong pickup in consumption, and according to official data, real GDP grew by 2.6 percent in the fourth quarter of the year.

Despite the global shock, Argentina's external accounts strengthened in 2009. The trade balance improved, as the decline in exports caused by the sudden drop in commodity prices and global trade flows was offset by the fall in imports, especially of capital and intermediate goods. As a result, the current account surplus increased from 1.8 percent of official GDP in 2008 to 2.5 percent of official GDP in 2009. Following a sharp rise in capital outflows in the first half of the year, the capital and financial account turned positive in the second half, and by year-end international reserves had increased by US\$1.5 billion to roughly US\$48 billion.

The government took quick measures to mitigate the effects of the global shock. It increased spending on capital works and social programs, raised pensions, created new credit lines at subsidized interest rates, and launched a tax relief program that included a tax moratorium and tax breaks for employment creation and foreign assets repatriation. Export taxes on wheat and corn were also reduced, and a special export pre-financing program, funded by ANSeS, was established. The measures, combined with the adverse impact of the downturn on revenues, increased the overall fiscal deficit from 0.9 percent of official GDP in 2008 to 3.6 percent of official GDP in 2009.

The central bank also adopted measures. To stabilize the money market, the central bank raised the Repo rates several times starting in September 2008 (the seven-day Repo rate reached a high of 27.2 percent in mid-November), before lowering them again in January 2009. In addition, to safeguard the liquidity of financial institutions, it adopted a mechanism to auction put options on central bank bills and notes, reduced the minimum reserve requirements on foreign currency deposits, opened a window to prequalify collaterals for financial support, increased the share of cash in vaults admissible for calculation of the reserve requirements, and increased the maximum available for repo loans at fixed rates from Arg\$3 billion to Arg\$10 billion. It also established a currency swap agreement for US\$10 billion with the People's Bank of China.

BOX 2. DEVELOPMENTS IN ARGENTINA'S PUBLIC AND EXTERNAL DEBT

From 2007 to 2012 Argentina's public and external debt as a share of official GDP declined significantly.¹³ Gross federal public debt as a share of official GDP fell by more than 20 percentage points (to less than 45 percent in 2012), while gross external debt as a share of official GDP fell from nearly 60 percent to around 35 percent in 2012.

Public Debt

- High real GDP growth rates, continued primary surpluses and persistently negative real interest rates contributed to the decline in the public debt-to-GDP ratio. High inflation, measures applicable to international financial flows and transfers of assets, and directed lending by public sector agencies were key factors behind the negative real borrowing costs. The debt exchange of 2010 also contributed.
- The government reliance on public sector agencies for financing increased during these years. As a result, by 2012, the central bank, ANSeS, and Banco Nación held approximately one-half of the gross federal debt. The reliance on domestic borrowing also affected the lenders' balance sheets; according to the latest data, roughly 55 percent of the central bank's assets consist of government securities or temporary advances; in the case of ANSeS's that ratio is close to 60 percent.
- The share of holdouts of defaulted debt and debt owed to Paris Club creditors declined from about 20 percent of gross federal debt in 2007 to 10 percent in 2012. The reduction was achieved mainly through the debt restructuring of 2010.
- About 45 percent of arrears as of June 2012 were with Paris Club creditors.

External Debt

- Argentina's total external debt remained broadly unchanged (at about US\$150 billion) between 2007 and 2012. Public external debt declined by US\$15 billion, but this decline was offset by an increase in external borrowing from the non-financial private sector (Table 6).
- The share of public debt in total external debt declined by about 10 percentage points, to 54 percent in 2012. The debt exchange of 2010, combined with the absence of new external borrowing by the government, explain the decline.
- In contrast, the share of non-financial private debt in total external debt rose to 43 percent; part of the increase reflected borrowing of multinationals from affiliated businesses abroad.

The 2010 Debt Exchange

- On June 22, 2010 Argentina closed its second exchange of public debt. The debt-exchange offer included US\$18.3 billion (US\$17.6 billion of principal and US\$0.7 billion of accrued and unpaid interest) of new bonds to be swapped; two-thirds of bondholders (US\$12.2 billion) accepted the offer. The holders of the remaining untendered bonds have continued to dispute their claims in courts. The debt exchanges of 2005 and 2010 combined resulted in the exchange of 91 percent of the debt eligible for exchange outstanding at the time of the 2001 default.
- Both the 2005 and 2010 debt exchanges included as options GDP-warrants with coupon payments linked to official GDP growth with a cap on the accumulated payments.
- At the time of the 2005 debt exchange, the offer was valued at 32 cents per U.S. dollar of principal claims, implying a NPV reduction (including past due interest) of around 75 percent (using a discount rate of 10 percent). In subsequent valuations the estimated "haircut" was smaller, since the high economic growth implied by the official data increased the value of the GDP-warrants.

¹³ As noted, when measured as a share of private estimates of nominal GDP, the decline is smaller.

BOX 3. MEASURES RELATED TO IMPORTS AND FOREIGN EXCHANGE TRANSACTIONS¹⁴

Since October 2011, the government has put in place a wide range of measures to contain the pressures on the foreign exchange market and international reserves. In late 2011 the government issued regulations requiring oil and mining companies to settle all export receipts in the domestic foreign exchange market and all insurance companies to repatriate offshore investments. These measures aimed at increasing the supply of dollars in the domestic market. Shortly thereafter, the government put in place several measures to curb the demand for foreign exchange. It prohibited foreign currency purchases for some specific purposes, and required all individuals, companies or entities seeking to buy foreign currency to seek prior approval from the authorities. In particular:

- In early 2012, the government adopted measures to reduce imports, including by requiring importers to request authorization from the federal tax administration (AFIP) to make purchases abroad through a Pre-Import Sworn Declaration (“Declaración Jurada Anticipada de Importación”), and to offer proof that they had obtained the authorization before the central bank allowed them to purchase dollars.
- In July 2012, the government prohibited the purchase of dollars for savings and to acquire real estate. The measure affected the real estate market and construction activity.
- The government also established tight limits on the purchase of foreign currency for tourism. In particular, the government limited the sale of foreign currency for travel abroad, and prohibited the purchase of dollars for travel to the euro zone or a neighboring country.
- In August 2012, AFIP imposed a 15 percent surcharge on all credit or debit card purchases made abroad, including online purchases via the Internet. The central bank also prohibited persons that do not have a dollar bank account in Argentina from withdrawing dollars from ATM machines located abroad.
- The government also adopted a measure to restrict firms’ repatriation of profits and dividends overseas. AFIP issued Resolution 3417 requiring companies to submit a prior sworn declaration (“Declaración Jurada Anticipada”) before distributing profits or dividends abroad. The central bank raised the banks’ buffer over the minimum capital requirement from 30 percent to 75 percent, before banks could distribute profits.

¹⁴ As noted earlier, staff is assessing the foreign exchange measures introduced by Argentina, including the implications of such measures, for jurisdictional implications under Article VIII of the Articles of Agreement.

Figure 1. Argentina: Real Sector Developments, 2006-12

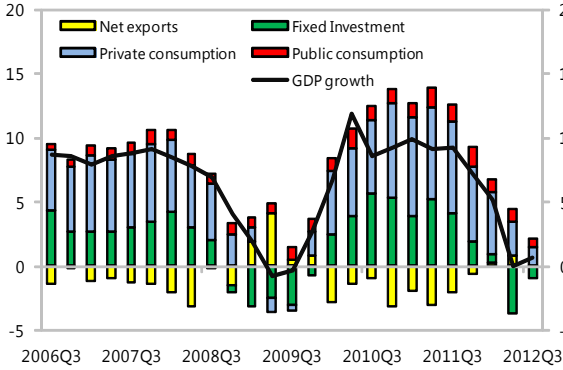
Economic growth has been high, fueled by favorable terms of trade, a competitive peso, and stimulative macroeconomic policies.

Except for 2008-09, domestic demand growth was very strong until 2011...

...affecting favorably all productive sectors.

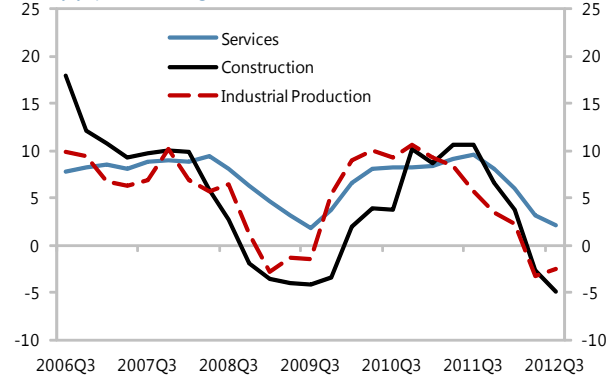
Official Real GDP Growth and Contributions

(y/y, percent change)



Official GDP Growth by Sectors

(y/y, percent change)

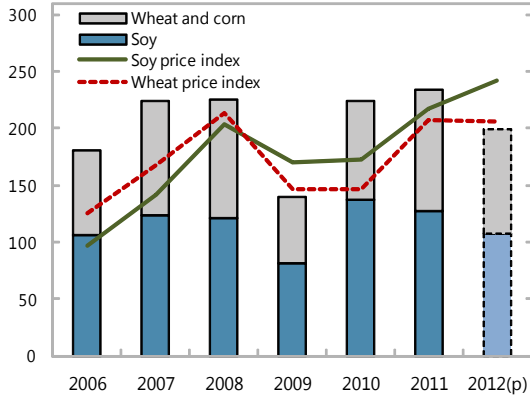


Agricultural output and international prices have been high...

...while trade links with Brazil have increased.

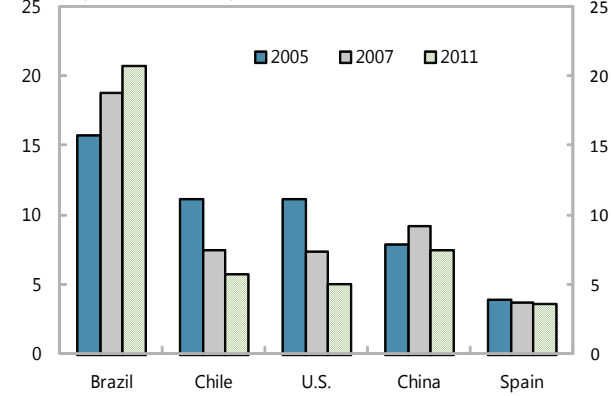
Agricultural Production and US\$ Prices

(Index, 2005=100)



Exports by Country of Destination

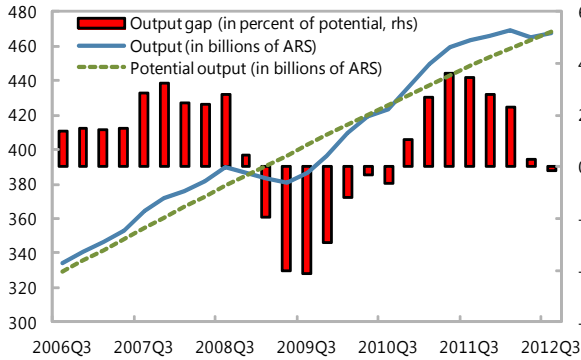
(In percent of total exports)



Output has exceeded potential in most years...

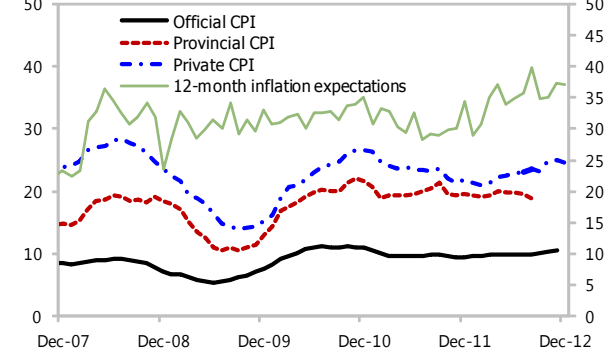
...and inflationary pressures have become entrenched.

Official GDP Level: Actual and Potential



Consumer Price Index

(y/y, percent change)



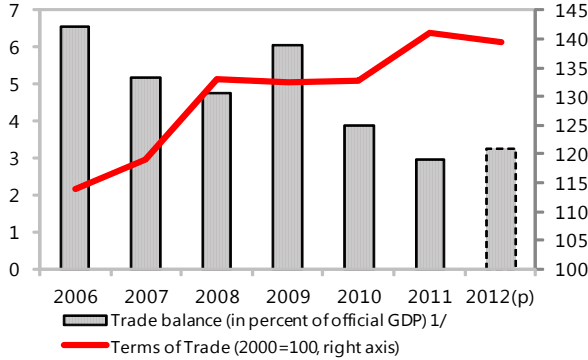
Sources: National Institute of Statistics and Census (INDEC), Ministry of the Economy and Public Finance, Ministry of Agriculture, Universidad Torcuato Di Tella, private analysts, provincial statistical offices, and Fund staff estimates and projections.

Figure 2. Argentina: External Sector Developments, 2006-12

Despite favorable terms of trade, the current account balance has deteriorated as the trade surplus has shrunk driven by growing energy imports and a steady real appreciation of the peso. The capital and financial account has recorded deficits since 2008 fueled by large outflows of private capital.

Favorable terms of trade have helped sustain a large but declining trade balance.....

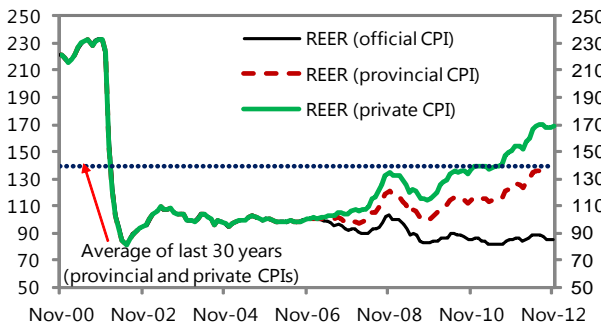
Trade Balance and Terms of Trade



The real effective exchange rate has appreciated steadily since 2007, but still is below its level at end-2000.

Real Effective Exchange Rate (REER)

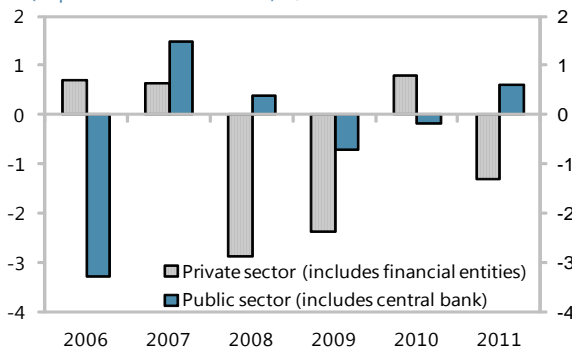
(Index, 2005=100)



...reflecting large net outflows of private capital.

Financial Account by Sector

(In percent of official GDP) 1/



Sources: INDEC, Central Bank of the Republic of Argentina (BCRA), private analysts, provincial statistical offices, and Fund staff estimates and projections.

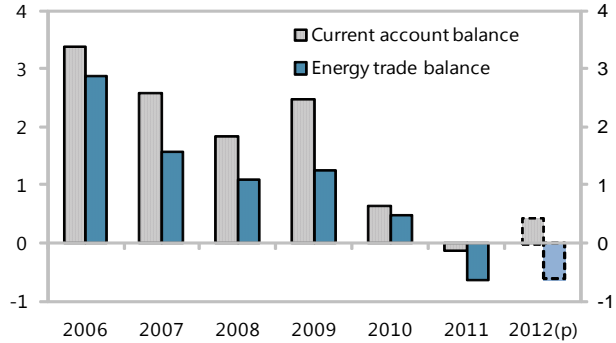
1/ The ratios to GDP would be lower than those reported in the figure if they were computed using private estimates of nominal GDP.

2/ Takes 100 and 150 percent of IMF's reserve adequacy matrix.

...though rising energy imports have gradually eroded the current account surplus.

Current Account and Energy Trade Balance

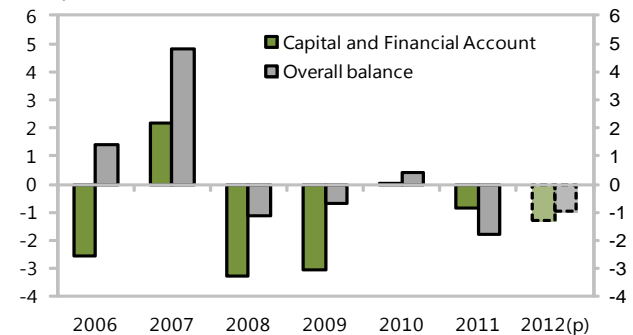
(In percent of official GDP) 1/



Since 2008, the capital and financial account and the overall balance of payments have mostly recorded deficits....

Capital and Financial Account and Overall Balance

(In percent of official GDP) 1/



At end-2011, gross international reserves stood at US\$46 billion.

Reserve Adequacy

(In billions of U.S. dollars)

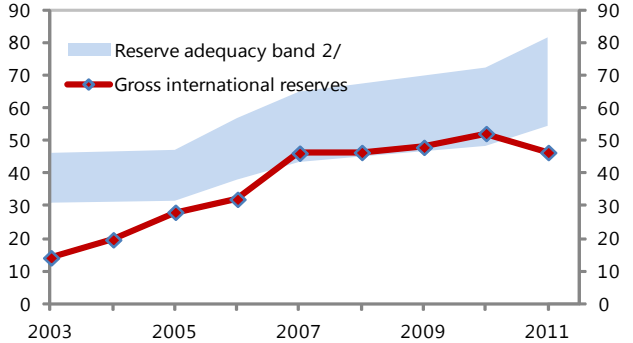
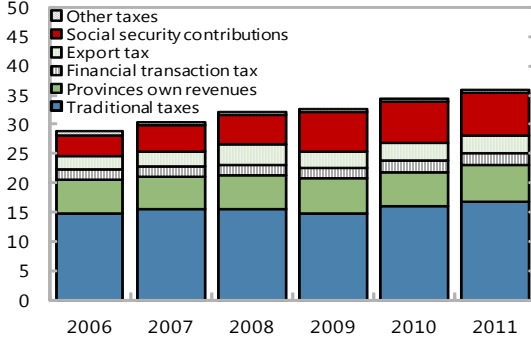


Figure 3. Argentina: Fiscal Developments, 2006-12 1/

Despite the increase in revenues, the primary balance has deteriorated over time due to a rapid growth in expenditures. The government is increasingly relying on funding from the central bank. Debt dynamics have been favorable.

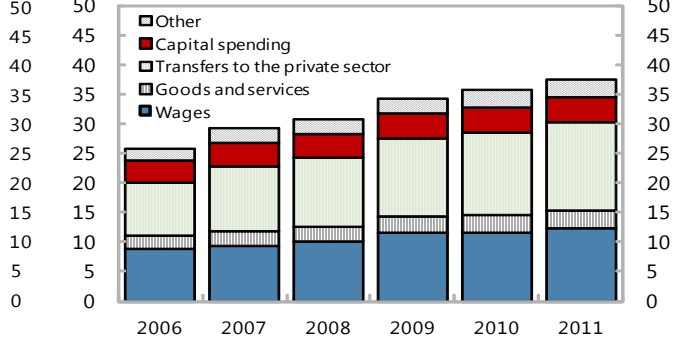
Revenues have increased significantly, mainly due to higher social security contributions...

Consolidated Government Revenues 2/
(In percent of official GDP)



...but the increase in primary spending has been larger, especially on transfers to the private sector.

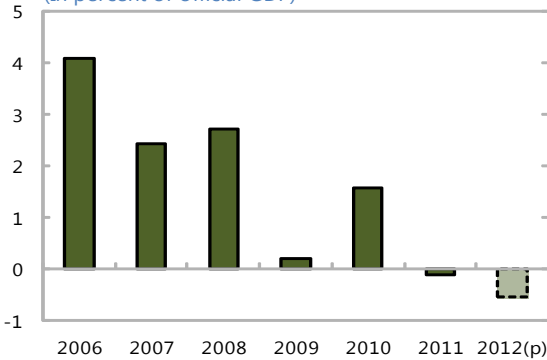
Consolidated Government Primary Expenditures 2/
(In percent of official GDP)



As a result, the primary balance position has weakened...

Primary Balance

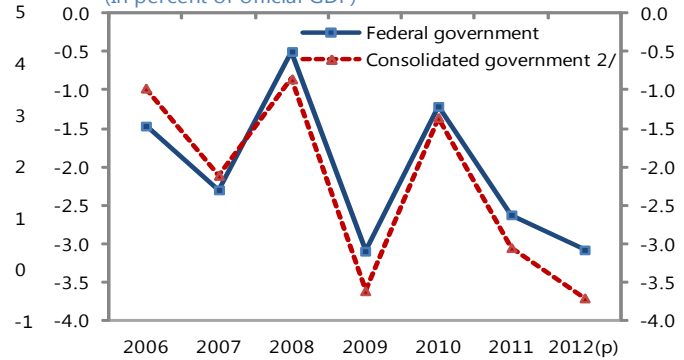
(In percent of official GDP)



...and the overall fiscal deficit has increased.

Overall Balance

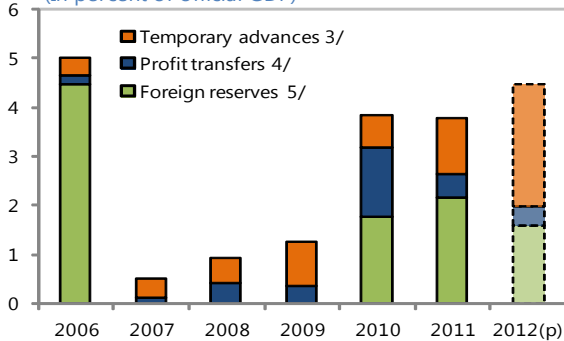
(In percent of official GDP)



Central bank financing of the deficit is on the rise.

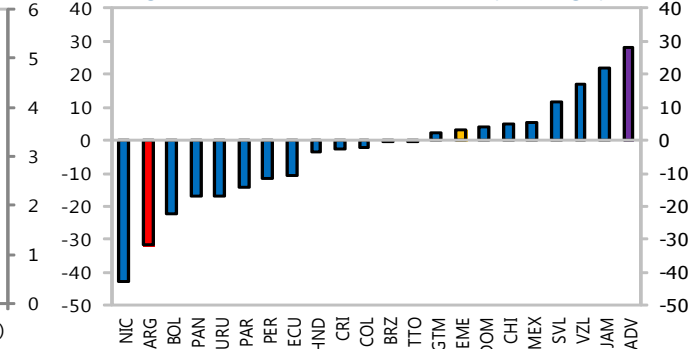
Central Bank Net Lending to the Treasury

(In percent of official GDP)



Public Debt to Official GDP

(Change between end-2006 and end-2011, in percentage points)



Sources: Ministry of the Economy and Public Finance, BCRA, World Economic Outlook (WEO), and Fund staff estimates and projections.

1/ The ratios to GDP would be lower than those reported in the figure if they were computed using private estimates of nominal GDP.

2/ Consolidated government includes the federal government and provincial governments.

3/ The central bank charter reform of 2012 increased the upper limit on temporary advances to the federal government.

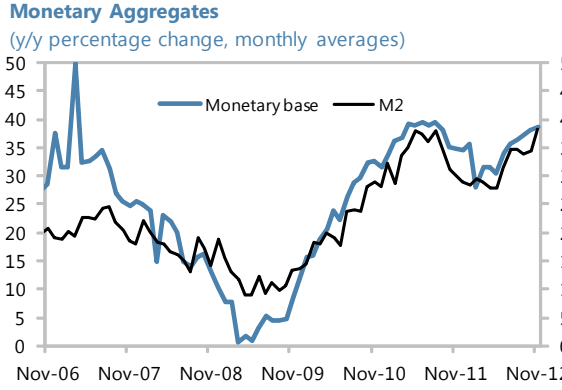
4/ Include valuation effects.

5/ Include US\$9.5 billion payment to the Fund in 2006.

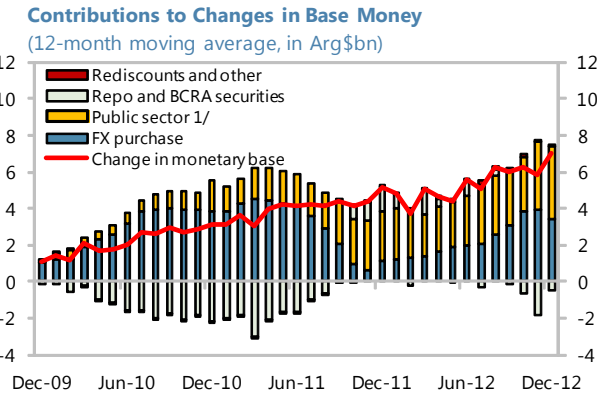
Figure 4. Argentina: Monetary Developments, 2006-2012

Monetary policy has remained expansive, while credit to the private sector has grown impressively.

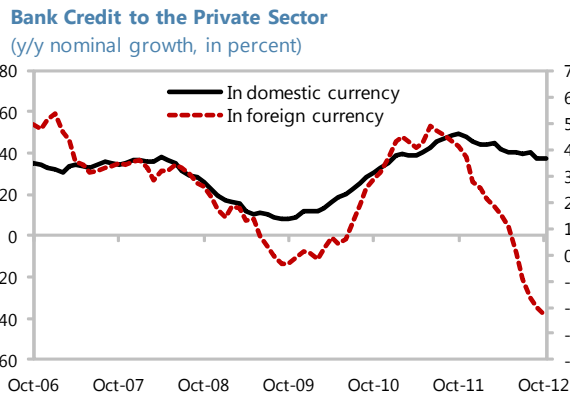
Except for 2008-09, monetary aggregates have grown very fast.



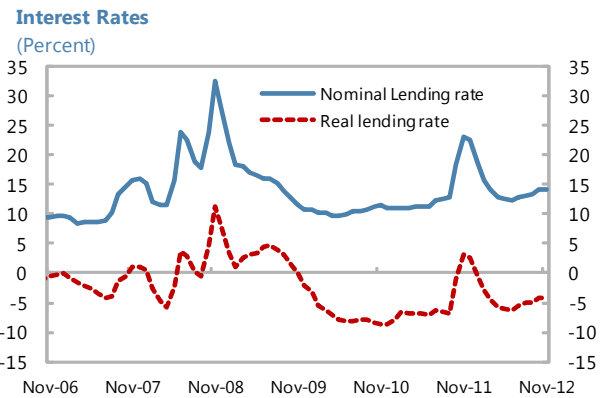
Since 2010, base money growth has been fueled by unsterilized FX purchases and credit to government.



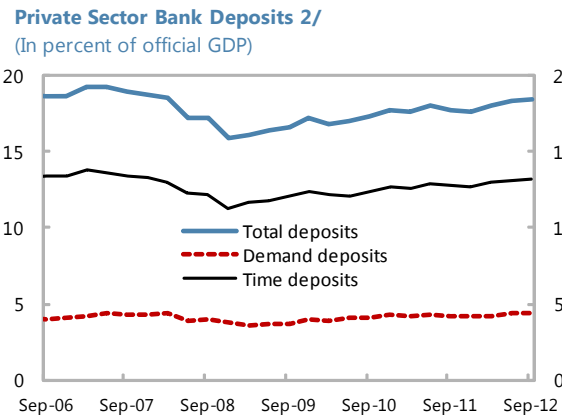
Bank credit in pesos to the private sector also has grown fast...



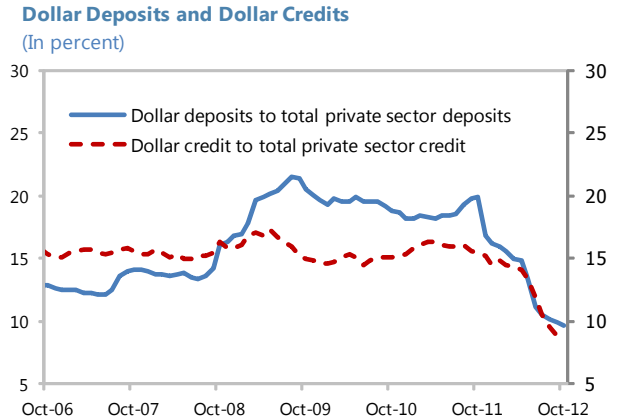
...fueled by favorable borrowing terms.



Financial deepening remains low.



While financial dollarization declined following the tightening of capital controls.



Sources: Central Bank of the Republic of Argentina (BCRA) and Fund staff estimates.

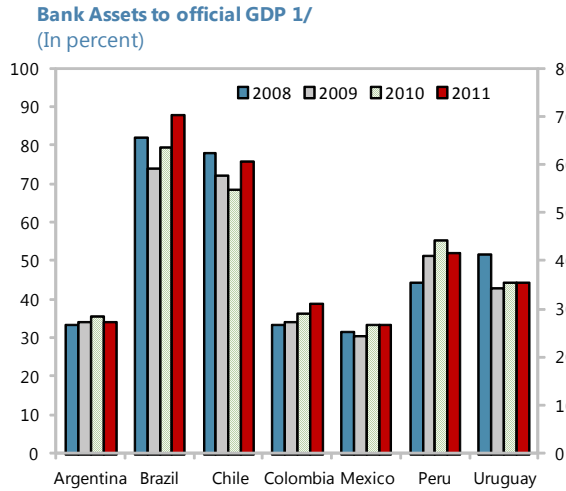
1/ Includes loans and other public sector operations.

2/ The ratios to GDP would be lower than those reported in the figure if they were computed using private estimates of nominal GDP.

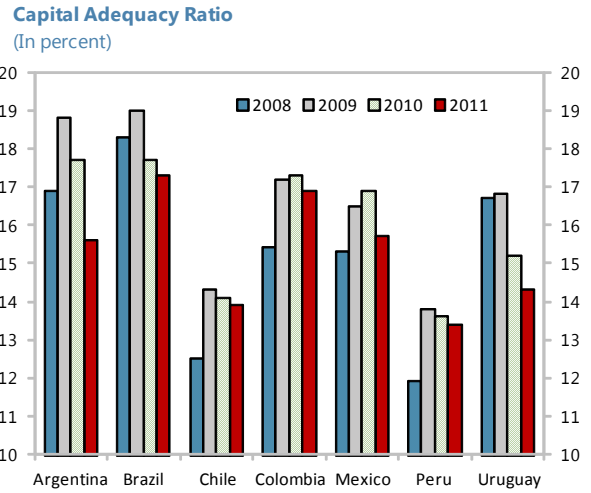
Figure 5. Argentina: Financial Sector, 2008-2011

The banking system, while small compared with regional peers, has stayed on a solid footing.

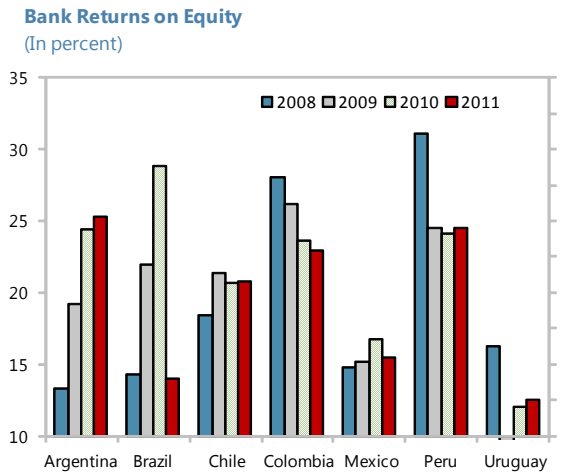
Argentina's banking sector is not big...



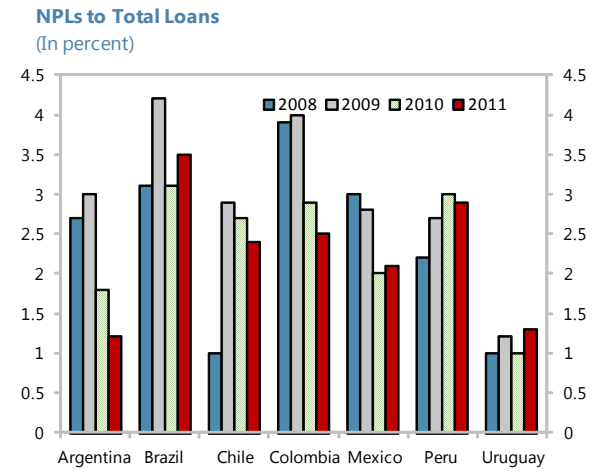
... but is highly capitalized...



...very profitable...



...and has low NPLs.



Sources: BCRA, Global Financial Stability Report, October 2012, and World Economic Outlook.

1/ The ratios to GDP (for Argentina) would be lower than those reported in the figure if they were computed using private estimates of nominal GDP.

Table 1. Argentina: Selected Economic and Financial Indicators, 2007-13

Population (2011): 40.6 million	Per capita GDP (2011): US\$10,959						
Quota (current; millions SDR / % total): 2,117 / 0.89	Gini coefficient (2012): 0.39						
Main products and exports: soybeans, automobiles, corn	Unemployment rate (2012,Q3): 7.6						
						Staff Projections	
	2007	2008	2009	2010	2011	2012	2013
	(Annual percentage changes)						
National income and prices 1/							
GDP at constant prices	8.7	6.8	0.9	9.2	8.9	2.0	2.8
Domestic demand	10.0	8.5	-1.0	11.3	10.7	1.1	3.0
CPI inflation (average)	8.8	8.6	6.3	10.5	9.8	10.0	9.9
CPI provincial inflation (average)	12.9	18.0	12.8	19.4	19.8	20.3	24.0
CPI unofficial private inflation (average)	16.4	26.3	16.8	22.9	23.4	23.2	24.0
GDP deflator	14.2	19.1	10.1	15.3	17.2	15.9	17.1
	(In percent of official GDP; unless otherwise indicated) 2/						
External sector							
Trade balance in goods	5.2	4.8	6.1	3.9	3.0	3.3	3.2
Exports f.o.b. (goods, US\$bns)	56.0	70.0	55.7	68.1	84.0	81.5	87.0
Imports f.o.b. (goods, US\$bns)	-42.5	-54.6	-37.1	-53.9	-70.7	-65.9	-71.0
Terms of trade (percentage change)	4.5	11.6	-0.4	0.2	6.2	-1.1	-0.1
Total external debt	59.6	51.5	48.2	38.8	35.4	34.4	34.3
Savings-Investment balance							
Gross domestic investment	24.1	23.3	20.9	21.9	22.5	21.4	22.2
<i>of which</i> : public sector	4.1	3.8	4.2	4.2	4.0	3.9	4.1
Gross national savings	26.7	25.2	23.4	22.6	22.4	21.9	22.5
<i>of which</i> : public sector	4.2	4.5	1.9	4.1	1.9	1.0	2.6
Current account balance	2.6	1.8	2.5	0.6	-0.1	0.4	0.3
Public sector							
Primary balance	2.5	2.7	0.2	1.6	-0.1	-0.5	-0.2
<i>of which</i> : federal government	2.2	3.0	0.7	1.7	0.3	0.0	0.1
Overall balance	-2.1	-0.9	-3.6	-1.4	-3.0	-3.7	-2.4
Revenues	31.5	33.4	34.3	37.2	37.3	39.5	40.5
Primary expenditure	29.1	30.7	34.1	35.6	37.4	40.0	40.7
Total public debt	67.4	58.5	58.7	49.2	44.9	44.4	42.7
<i>of which</i> : share of FX denominated debt	60.6	60.4	61.8	62.0	62.9	63.4	63.9
Money and credit							
Monetary base (percentage change)	24.0	10.2	11.8	31.1	39.0	38.6	32.2
M2 (percentage change)	26.1	14.1	15.6	34.9	30.8	39.4	32.2
Short-term deposit rate (BADLAR)	10.1	13.6	12.4	10.1	13.3	13.8	13.5
Credit to the private sector (percentage change)	37.0	20.1	10.2	36.5	44.3	30.7	33.1
Memorandum items							
Gross international reserves (US\$bns)	46.2	46.4	48.0	52.2	46.4	43.3	45.1
Nominal GDP (Arg\$bns)	811.4	1,031.6	1,145.3	1,441.8	1,840.0	2,175.1	2,619.0
Nominal GDP (US\$bns)	260.1	324.4	305.8	367.6	444.6	477.9	492.4
Exchange rate (average, Arg\$/US\$)	3.1	3.2	3.7	3.9	4.1	4.6	5.3
REER (2005=100) 3/	101.1	108.4	107.9	114.8	120.8	136.5	143.4

Sources: Ministry of the Economy and Public Finance, Central Bank of the Republic of Argentina (BCRA), and Fund staff estimates and projections.

1/ The IMF has called on Argentina to adopt remedial measures to address the quality of the official GDP and the consumer price index (CPI-GBA) data. The table presents the official estimates for CPI inflation and GDP. It also presents alternative measures inflation, including data produced by provincial statistical offices and private analysts, which have shown considerably higher inflation figures than the official data since 2007.

2/ The ratios to GDP would be lower than those reported in the table if they were computed using private estimates of nominal GDP.

3/ Based on the IMF staff estimates of provincial CPI.

Table 2. Argentina: Summary Balance of Payments, 2007-13

	2007	2008	2009	2010	2011	Staff Projections	
						2012	2013
	(In billions of U.S. dollars)						
Current account	6.7	6.0	7.5	2.4	-0.6	2.1	1.6
Trade balance	13.5	15.4	18.5	14.3	13.2	15.6	15.9
Exports f.o.b.	56.0	70.0	55.7	68.1	84.0	81.5	87.0
Primary products	12.5	16.2	9.3	15.1	20.2	20.2	23.1
Manufactures of agricultural origin	19.2	23.9	21.2	22.7	28.2	27.3	30.0
Manufactures of industrial origin	17.3	22.1	18.7	23.8	29.0	27.5	27.7
Energy	6.9	7.8	6.5	6.5	6.6	6.5	6.1
Imports f.o.b.	-42.5	-54.6	-37.1	-53.9	-70.7	-65.9	-71.0
Capital goods	-17.6	-21.5	-15.2	-21.9	-27.6	-25.0	-26.4
Intermediate goods	-14.4	-19.0	-11.9	-16.8	-20.9	-19.3	-21.7
Consumer goods	-7.8	-10.0	-7.6	-10.9	-13.3	-12.5	-13.9
Fuels and lubricants	-2.7	-4.1	-2.5	-4.2	-9.0	-9.1	-9.1
Services, income and transfers	-6.7	-9.4	-11.0	-11.9	-13.8	-13.5	-14.4
Services balance	-0.5	-1.3	-1.3	-1.1	-2.3	-3.5	-3.7
Earnings and dividends, net	-5.2	-6.1	-6.6	-7.2	-7.3	-6.1	-6.3
Interests, net	-1.3	-2.2	-3.1	-3.1	-3.7	-3.5	-3.9
Other flows and transfers	0.3	0.1	0.0	-0.4	-0.6	-0.5	-0.5
Capital and financial account	5.7	-10.7	-9.3	0.0	-3.7	-6.1	-1.1
Capital account	0.1	0.2	0.1	0.1	0.1	0.0	0.1
Portfolio investment, net	6.5	-9.0	-4.4	11.1	-4.3	-2.8	-1.0
of which: public sector	5.4	-7.1	-2.8	10.9	-3.9	-3.3	-1.0
Foreign direct investment, net	5.0	8.3	3.3	6.1	7.2	8.4	7.5
Other investment, net	-5.9	-10.3	-8.2	-17.3	-6.6	-11.8	-7.7
Errors and omissions	0.1	1.1	-0.3	-1.0	-3.7	-0.7	0.0
Overall balance	12.5	-3.7	-2.1	1.4	-8.0	-4.7	0.4
Financing	-12.5	3.7	2.1	-1.4	8.0	4.7	-0.4
Change in gross reserves (increase -)	-14.1	-0.2	-1.6	-4.2	5.8	3.0	-1.9
Valuation changes and arrears	1.7	3.9	3.6	2.8	2.2	2.1	1.5
	(In percent of official GDP; unless otherwise indicated) 1/						
Current account	2.6	1.8	2.5	0.6	-0.1	0.4	0.3
Trade balance	5.2	4.8	6.1	3.9	3.0	3.3	3.2
Exports, f.o.b.	21.5	21.6	18.2	18.5	18.9	17.1	17.7
Imports f.o.b.	-16.4	-16.8	-12.1	-14.7	-15.9	-13.8	-14.4
Capital and financial account	2.2	-3.3	-3.0	0.0	-0.8	-1.3	-0.2
Portfolio investment, net	2.5	-2.8	-1.4	3.0	-1.0	-0.6	-0.2
Foreign direct investment, net	1.9	2.6	1.1	1.7	1.6	1.8	1.5
Other investment, net	-2.3	-3.2	-2.7	-4.7	-1.5	-2.5	-1.6
Memorandum items:							
Non-interest current account balance (US\$bns)	8.0	8.2	10.6	5.5	3.0	5.5	5.4
Non-interest current account balance	3.1	2.5	3.5	1.5	0.7	1.2	1.1
Exports volumes (percent change)	7.7	1.2	-9.3	16.1	5.5	-4.1	8.4
Imports volumes (percent change)	22.4	15.8	-23.0	38.5	18.5	-8.6	9.0
Terms of Trade (Index, 2000 = 100)	119.1	132.9	132.4	132.7	141.0	139.4	139.2
REER (2005=100, private CPI)	104.2	119.7	123.4	135.2	146.6	165.6	173.9
REER (2005=100, provincial CPI)	101.1	108.4	107.9	114.8	120.8	136.5	143.4
Gross international reserves (US\$bns)	46.2	46.4	48.0	52.2	46.4	43.3	45.2
(in months of imports of goods and services)	10.4	8.2	11.7	9.1	6.3	6.1	5.9
Net international investment position	13.1	17.7	18.2	11.9	10.9	...	...
Assets	79.2	65.0	73.2	64.5	56.5	...	...
Liabilities	66.2	47.3	55.0	52.7	45.6	...	...

Sources: National Institute of Statistics and Census (INDEC), IMF Data Warehouse and Fund staff estimates and projections.

1/ The ratios to GDP would be lower than those reported in the table if they were computed using private estimates of nominal GDP.

Table 3. Argentina: Consolidated Public Sector Operations, 2007-13 1/

	Average						Staff Projections	
	2004-06	2007	2008	2009	2010	2011	2012	2013
	(In billions of Argentine pesos)							
Revenues	160.4	255.9	344.6	392.8	535.8	686.0	859.1	1,061.2
Tax revenues	125.7	198.4	262.8	278.3	375.8	489.7	611.8	745.0
Social security contributions	19.6	36.9	53.3	77.1	101.0	133.7	176.9	228.9
Other revenues	15.1	20.6	28.5	37.4	59.1	62.5	70.3	87.3
Primary Expenditures	135.3	236.0	316.6	390.4	512.9	688.0	870.8	1,067.1
Wages	45.5	75.7	104.5	131.9	167.5	226.1	292.3	353.7
Goods and services	12.7	19.0	23.5	30.7	40.0	54.3	70.1	84.1
Transfers to the private sector	47.8	88.7	122.8	151.6	202.9	276.9	355.2	437.5
<i>Of which: federal pensions</i>	26.7	50.5	64.6	83.2	107.1	147.1	204.5	262.5
Capital spending	17.5	33.2	39.6	47.6	60.4	74.0	84.0	108.7
Other	11.8	19.4	26.2	28.6	42.0	56.6	69.2	83.2
Primary balance	25.1	19.9	28.0	2.4	22.9	-2.0	-11.8	-5.9
Interest cash	9.6	16.9	18.4	25.1	22.8	35.3	48.2	33.7
Accrued interest 2/	24.9	20.1	18.4	18.6	19.7	18.8	20.6	22.3
Overall balance	-9.4	-17.1	-8.8	-41.3	-19.6	-56.1	-80.5	-61.9
	(In percent of official GDP) 3/							
Revenues	29.4	31.5	33.4	34.3	37.2	37.3	39.5	40.5
Tax revenues	23.1	24.4	25.5	24.3	26.1	26.6	28.1	28.4
Social security contributions	3.6	4.5	5.2	6.7	7.0	7.3	8.1	8.7
Other revenues	2.8	2.5	2.8	3.3	4.1	3.4	3.2	3.3
Primary expenditures	24.7	29.1	30.7	34.1	35.6	37.4	40.0	40.7
Wages	8.3	9.3	10.1	11.5	11.6	12.3	13.4	13.5
Goods and services	2.3	2.3	2.3	2.7	2.8	3.0	3.2	3.2
Transfers to the private sector	8.8	10.9	11.9	13.2	14.1	15.0	16.3	16.7
<i>Of which: federal pensions</i>	4.9	6.2	6.3	7.3	7.4	8.0	9.4	10.0
Capital spending	3.1	4.1	3.8	4.2	4.2	4.0	3.9	4.1
Other	2.2	2.4	2.5	2.5	2.9	3.1	3.2	3.2
Primary balance	4.7	2.5	2.7	0.2	1.6	-0.1	-0.5	-0.2
Interest cash	1.7	2.1	1.8	2.2	1.6	1.9	2.2	1.3
Accrued interest 2/	4.8	2.5	1.8	1.6	1.4	1.0	0.9	0.9
Overall balance	-1.8	-2.1	-0.9	-3.6	-1.4	-3.0	-3.7	-2.4

Sources: Ministry of the Economy and Public Finance, Fund staff estimates and projections.

1/ The consolidated public sector includes the federal government and provincial governments.

2/ Includes capitalized interest, the adjustment on inflation-indexed bonds, and interest arrears.

3/ The ratios to GDP would be lower than those reported in the table if they were computed using private estimates of nominal GDP.

Table 4. Argentina: Federal Government Operations, 2007-13

	Average	2007	2008	2009	2010	2011	Staff Projections	
	2004-06						2012	2013
(In billions of Argentine pesos)								
Revenues	129.8	210.5	284.9	323.9	450.4	567.6	715.1	887.8
Tax revenues	103.3	164.1	217.3	225.3	307.1	396.8	498.9	609.1
Social security contributions	19.6	36.9	53.3	77.1	101.0	133.7	176.9	228.9
Nontax revenues	6.9	9.5	14.2	21.5	42.4	37.2	39.2	49.8
Primary Expenditures	109.8	192.6	253.7	316.2	426.2	562.7	714.4	884.3
Federal expenditures	67.0	124.3	169.7	214.8	291.9	394.9	501.9	622.9
Wages	14.1	22.8	30.5	41.4	57.8	74.3	94.5	115.4
Goods and services	4.9	7.5	9.5	13.4	17.8	24.0	31.9	38.1
Pensions	26.7	50.5	64.6	83.2	107.1	147.1	204.5	262.5
Transfers to private sector	14.9	28.3	45.3	52.5	75.9	103.6	118.2	135.9
Capital	5.7	13.0	15.8	20.4	24.6	30.5	33.5	47.9
Other	0.6	2.3	3.9	3.9	8.7	15.5	19.3	23.0
Transfers to provinces	42.8	68.3	84.0	101.5	134.3	167.8	212.5	261.5
Automatic	31.6	50.5	63.5	68.9	100.8	123.2	159.4	198.0
Discretionary	11.1	17.8	20.6	32.6	33.5	44.5	53.1	63.4
Primary balance	20.0	17.9	31.2	7.6	24.3	4.9	0.7	3.5
Interest cash	9.2	16.4	17.9	24.4	22.0	34.3	47.0	32.4
Accrued interest 1/	24.9	20.1	18.4	18.6	19.7	18.8	20.6	22.3
Overall balance	-14.0	-18.6	-5.1	-35.4	-17.4	-48.2	-66.9	-51.2
(In percent of official GDP) 2/								
Revenues	23.8	25.9	27.6	28.3	31.2	30.8	32.9	33.9
Tax revenues	19.0	20.2	21.1	19.7	21.3	21.6	22.9	23.3
Social security contributions	3.6	4.5	5.2	6.7	7.0	7.3	8.1	8.7
Nontax revenues	1.3	1.2	1.4	1.9	2.9	2.0	1.8	1.9
Primary expenditures	20.1	23.7	24.6	27.6	29.6	30.6	32.8	33.8
Primary expenditures (excluding provinces)	12.3	15.3	16.4	18.8	20.2	21.5	23.1	23.8
Wages	2.6	2.8	3.0	3.6	4.0	4.0	4.3	4.4
Goods and services	0.9	0.9	0.9	1.2	1.2	1.3	1.5	1.5
Pensions	4.9	6.2	6.3	7.3	7.4	8.0	9.4	10.0
Private sector transfers	2.7	3.5	4.4	4.6	5.3	5.6	5.4	5.2
Capital	1.0	1.6	1.5	1.8	1.7	1.7	1.5	1.8
Other	0.1	0.3	0.4	0.3	0.6	0.8	0.9	0.9
Transfers to provinces	7.8	8.4	8.1	8.9	9.3	9.1	9.8	10.0
Automatic	5.8	6.2	6.2	6.0	7.0	6.7	7.3	7.6
Discretionary	2.0	2.2	2.0	2.8	2.3	2.4	2.4	2.4
Primary balance	3.7	2.2	3.0	0.7	1.7	0.3	0.0	0.1
Interest cash	1.7	2.0	1.7	2.1	1.5	1.9	2.2	1.2
Accrued interest 1/	4.8	2.5	1.8	1.6	1.4	1.0	0.9	0.9
Overall balance	-2.8	-2.3	-0.5	-3.1	-1.2	-2.6	-3.1	-2.0
Memorandum items								
Total revenues (percentage change)	26.9	33.0	35.3	13.7	39.1	26.0	26.0	24.2
Primary expenditures (percentage change)	25.4	42.6	31.7	24.6	34.8	32.0	27.0	23.8

Sources: Ministry of the Economy and Public Finance, Fund staff estimates and projections.

1/ Includes capitalized interest, the adjustment on inflation-indexed bonds, and interest arrears.

2/ The ratios to GDP would be lower than those reported in the table if they were computed using private estimates of nominal GDP.

Table 5. Argentina: Summary Operations of the Financial System, 2007-13

(In billions of Argentine pesos, end of period, unless otherwise indicated) 1/

	Average	2007	2008	2009	2010	2011	Staff Projections	
	2004-06						2012	2013
Central Bank								
Net international reserves 2/	45.5	127.6	131.7	144.6	168.4	174.9	173.1	221.7
Net domestic assets	16.9	-28.3	-22.2	-22.3	-8.0	48.0	136.0	187.0
Credit to the public sector (net)	55.5	51.8	70.4	95.8	101.4	129.5	163.2	190.7
Credit to the financial sector (net)	13.7	2.9	2.6	1.2	1.5	2.1	3.9	3.9
Central bank bonds (LEBACs)	33.1	57.2	53.1	54.4	88.6	84.2	116.8	149.7
Official capital and other items (net)	19.3	25.8	42.1	64.9	22.3	-0.6	-85.8	-142.2
Monetary base	62.4	99.3	109.4	122.4	160.4	222.9	309.1	408.7
Currency issued	48.4	74.8	84.1	98.1	124.5	173.1	233.1	280.7
Bank deposits at the Central Bank	14.0	24.5	25.4	24.3	35.9	49.9	76.0	128.1
Consolidated Financial System								
Net foreign assets	38.8	130.2	134.8	144.3	168.8	171.0	169.0	217.5
Net domestic assets	106.6	88.8	103.8	139.0	200.3	304.7	453.9	554.7
Credit to the public sector (net)	113.8	82.3	86.2	133.3	128.7	143.0	121.7	199.6
Credit to the private sector	63.1	113.1	135.9	149.7	204.4	295.0	385.7	513.4
Net capital, reserves, and other assets	-70.4	-106.6	-118.2	-144.1	-132.8	-133.4	-53.5	-158.3
Liabilities with the private sector	145.4	219.0	238.6	283.3	369.1	475.7	623.0	772.2
Currency outside banks	43.8	67.1	74.1	86.1	113.6	151.3	207.4	249.7
Local currency deposits	90.5	130.6	136.9	158.4	209.0	272.1	384.2	490.3
Foreign currency deposits	11.1	21.3	27.6	38.8	46.6	52.3	31.4	32.3
(In percent of official GDP; unless otherwise indicated) 3/								
Net domestic assets	20.4	10.9	10.1	12.1	13.9	16.6	20.9	21.2
Credit to the public sector (net)	21.9	10.1	8.4	11.6	8.9	7.8	5.6	7.6
Credit to the private sector	11.5	13.9	13.2	13.1	14.2	16.0	17.7	19.6
Liabilities with the private sector	26.7	27.0	23.1	24.7	25.6	25.9	28.6	29.5
Monetary base	11.4	12.2	10.6	10.7	11.1	12.1	14.2	15.6
(Percentage change, 12-month basis)								
Credit to the private sector	27.7	37.0	20.1	10.2	36.5	44.3	30.7	33.1
Liabilities with the private sector	20.1	24.7	9.0	18.7	30.3	28.9	31.0	24.0
(Contribution to changes in base money, 12-month basis)								
Monetary base	21.2	24.0	10.2	11.8	31.1	39.0	38.6	32.2
Net international reserves	62.7	51.2	4.1	11.8	19.4	4.1	-0.8	15.7
Other, including net credit to the public sector	-41.5	-27.2	6.1	-0.1	11.7	34.9	39.5	16.5
Memorandum items:								
Net international reserves (US\$ billions)	14.9	40.5	38.2	38.1	42.3	40.8	35.5	38.9
Gross international reserves (US\$ billions)	26.6	46.2	46.4	47.9	52.1	46.5	43.3	45.2
M2 (percent change) 4/	25.5	26.1	14.1	15.6	34.9	30.8	39.4	32.2
M3 (percent change) 5/	21.8	21.4	14.2	15.8	37.8	25.5	29.1	26.9
Short-term nominal lending rate	7.2	11.1	19.5	15.7	10.6	14.1	14.1	14.5
Real short-term lending rate 6/	-1.0	-1.6	1.2	2.5	-7.4	-4.8	-5.2	-7.7
Short-term deposit rate (BADLAR)	5.7	10.1	13.6	12.4	10.1	13.3	13.8	13.5
Real short-term deposit rate (BADLAR) 6/	-2.4	-2.5	-3.7	-0.3	-7.8	-5.4	-5.4	-8.5
Real credit to the private sector (percent change) 6/	17.8	21.4	1.8	-2.3	14.4	20.4	8.7	7.3

Sources: BCRA, and Fund staff estimates and projections.

1/ Foreign currency items in 2012 and 2013 are valued at the exchange rate of Arg\$4.99 and Arg\$5.49 per U.S. dollar.

2/ Excludes foreign currency deposits of the banking system.

3/ The ratios to GDP would be lower than those reported in the table if they were computed using private estimates of nominal GDP.

4/ Currency in circulation outside banks, plus demand and savings deposits, excluding in foreign currency.

5/ M2 plus time, foreign currency and other deposits.

6/ Real variables are calculated using the IMF staff estimates of provincial inflation.

Table 6. Argentina: External Debt, 2007-12

	2007	2008	2009	2010	Staff Projections	
					2011	2012
			(in billions of U.S. dollars)			
Total external debt (gross; includes holdouts)	153.4	153.9	145.4	140.6	151.8	153.2
in percent of GDP 1/	59.6	51.5	48.2	38.8	35.4	34.4
By maturity						
Long-term	82.3	69.4	67.2	75.1	76.5	76.1
Short-term (includes arrears)	71.1	84.5	78.1	65.4	75.4	77.0
By type of creditor						
Debt to official creditors	26.7	29.9	30.6	28.4	34.0	31.9
Debt to banks	8.8	10.1	8.1	9.0	9.4	9.9
Debt to other private creditors	117.9	113.8	106.7	103.2	108.4	111.4
By type of debtor						
Official debt	99.7	93.4	91.6	80.7	84.4	82.9
Bank debt	5.9	5.1	3.6	3.1	3.9	3.8
Non-financial private sector	47.8	55.4	50.2	56.7	63.5	66.4

Sources: INDEC, BCRA, and Fund staff estimates and projections.

1/ The ratios to GDP would be lower than those reported in the table if they were computed using private estimates of nominal GDP.

Table 7. Argentina: Public Debt, 2007-12

	2007	2008	2009	2010	2011	Jun-2012
	(In billions of U.S. dollars)					
Gross federal debt (includes holdouts)	173.6	175.0	176.9	178.1	192.7	196.6
Gross federal debt performing 1/	139.2	139.6	140.9	158.0	172.7	176.6
By currency:						
In domestic currency	11.4	15.9	30.2	29.7	34.4	34.6
In foreign currency	105.2	105.6	109.3	110.3	121.3	125.5
In CPI-indexed units	56.9	53.4	37.4	38.1	37.1	36.5
<i>of which: held by public sector agencies</i>	...	...	...	22.9	25.2	25.2
By creditor:						
Holdings by national public sector agencies 2/	...	...	69.5	76.3	95.2	99.8
Private sector	...	...	53.5	63.3	57.8	57.3
Multilateral and bilateral agencies	16.5	16.0	18.0	18.4	19.3	19.2
Paris club 3/	4.9	5.2	6.2	8.9	9.2	9.1
Holdouts	28.9	29.0	29.8	11.2	11.2	11.2
By residency:						
Held by external residents 4/	91.0	84.7	84.8	75.0	74.4	76.0
Held by domestic residents	82.6	90.2	92.1	103.2	118.4	120.5
	(In percent of official GDP) 5/					
Gross federal debt (includes holdouts)	67.4	58.5	58.7	49.2	44.9	44.1
Gross federal debt performing 1/	54.1	46.7	46.7	43.6	40.3	39.6
By currency:						
In domestic currency	4.4	5.3	10.0	8.2	8.0	7.8
In foreign currency	40.8	35.3	36.3	30.5	28.3	28.2
In CPI-indexed units	22.1	17.9	12.4	10.5	8.6	8.2
<i>of which: held by public sector agencies</i>	...	...	...	6.3	5.9	5.6
By creditor:						
Holdings by national public sector agencies 2/	...	...	23.0	21.1	22.2	22.4
Private sector	...	...	17.7	17.5	13.5	12.8
Multilateral and bilateral agencies	6.4	5.4	6.0	5.1	4.5	4.3
Paris club 3/	1.9	1.8	2.1	2.5	2.1	2.0
Holdouts	11.2	9.7	9.9	3.1	2.6	2.5
By residency:						
Held by external residents 4/	35.3	28.3	28.1	20.7	17.3	17.1
Held by domestic residents	32.1	30.2	30.6	28.5	27.6	27.0

Sources: Ministry of the Economy and Public Finance and Fund staff estimates.

1/ Excludes holdouts and arrears.

2/ Held mainly by BCRA, the National Social Security Administration (ANSeS) and Banco Nación.

3/ Figures for 2010, 2011 and 2012 include penalty interest.

4/ Includes holdout creditors.

5/ The ratios to GDP would be lower than those reported in the table if they were computed using private estimates of nominal GDP.